economic trends

October 2013

Strong expansion, weak inflation

Alberta's economy continues to grow at a solid rate, according to the latest indicators. Household spending, construction and exports are playing a key role in the current expansion. Despite this growth, consumer price inflation in Alberta has remained benign. Nationally, the combination of weak inflation and tepid growth have led the Bank of Canada to soften its stance on future interest rate increases. The inFocus talks about Alberta's rising contribution to Canadian exports.

Key Indicators — Indicators seasonally adjusted unless otherwise indicated.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	September	2,236	+3.7%
Unemployment Rate	September	4.3%	-0.1 p.p.
CPI Inflation	September	1.3%	-0.1 p.p.
Retail Sales	August	$6.1B	+5.5%
Housing Starts (annualized)	September	30,468	-8.7%
Rigs Drilling (unadjusted)	October	239	+1.0%
Manufacturing Shipments	August	$6.5B	+8.0%
Exports (unadjusted)	August	$8.6B	+11.9%

Source: Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Household Sector

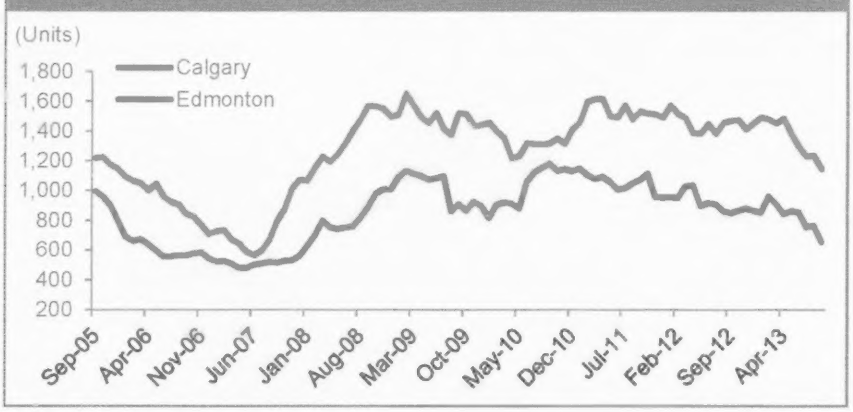
Inflation - what inflation?

Alberta's rate of consumer price inflation edged lower in September to 1.3%, bringing the year-to-date reading to only 1.4%. Weak price increases are not confined to Alberta. Inflation has been tame in most of the developed world, including Canada (see pg. 2). Continued slack in the Canadian and US economies is contributing to tepid inflation in Alberta.

Housing market tightens

The latest indicators portray a housing market that continues to strengthen. Alberta average resale home prices are climbing at a solid pace, accelerating to 7.8% year-over-year (y/y) growth in September. The new housing price index is also growing at an accelerating rate, although at just over 3% the gains are still fairly moderate. Home price gains reflect some tightening in the market, as surging in-migration has increased housing demand. The sales-to-new listing ratio in September reached its highest level since June 2009 at 0.69. Part of this increase is likely distorted by the floods, which temporarily reduced supply while increasing housing demand. The tightening in supply is also evidenced by the drop in unabsorbed dwellings in Alberta's major urban markets, which have approached 2007 levels.

Chart 1: Newly Completed and Unoccupied Dwellings



Source: CMHC

Healthy labour market

In September, job creation moderated to 4,000, down from the feverish pace of 12,900 per month between April and August. Despite weaker job growth, the unemployment rate dipped half a percentage point to 4.3 per cent in September. However, this dip was mainly the result of people leaving the labour force. Job vacancy statistics show a fairly balanced market. The number of vacant positions, both as a share of labour demand and as a share of unemployed individuals, has remained steady since the beginning of the year. Large inflows of migrants have helped fill vacancies and keep wage pressures in check.

Autos continue to power retail sales

Retail sales in Alberta have shown persistent strength this year, up 6.4% year-to-date through August. The overall growth number masks the disproportionate impact of auto sales. Sales at vehicle and parts dealerships were up 13.9% year-to-date. Excluding these sales, growth is a more modest 3.5%, below the combined rate of population and wage growth.

Alberta Business Sector

Construction activity picks up

Investment on non-residential construction gained momentum in the third quarter, rising 4.9% over the previous quarter and hitting

the highest level since early 2009. Flood reconstruction likely played a role, as Calgary construction spending jumped 5.8% during the quarter. Building permits, which have risen 19.3% year-to-date through August, point to further gains. Institutional, residential and commercial permits have all seen strong increases over this period.

Shipments and exports bounce back

After a period of sluggish growth starting in mid–2012, Alberta's international exports and manufacturing shipments have gained strength in recent months. Year-over-year growth picked up to 8.0% in August for manufacturing shipments and reached 11.9% for exports. The energy sector is the main driver of both indicators, aided by higher oil prices and production resuming after disruptions in the spring. In the manufacturing sector, stronger chemical and petroleum shipments have mainly caused Alberta shipments to diverge from the rest of Canada (Chart 2). Meanwhile, wood product shipments continued their stellar growth, up 31.5% year-to-date (see inFocus: "Why has Alberta's Lumber Industry Outperformed?")

More rigs active

The number of active drilling rigs increased from last year's levels for a third straight month in October. This is a reversal of the downward trend seen in most of 2012 and early 2013.

Global Economy

Canada and EU finalize trade pact

Canada and the EU have agreed in principle to a comprehensive trade agreement. The agreement is meant to eliminate tariffs on most goods, reduce barriers to investment, harmonize regulation, and allow for mutual recognition of professional designations. A key component of the deal is a reduction of EU tariffs on beef imports. Under the agreement, Canada will be able to export 65,000 tonnes of beef tariff-free, up from the current 15,000 tonnes. The agreement must still be ratified by each of Canada's 13 provinces and territories and the 28 EU member states, as well as the European Parliament and Parliament of Canada.

Bank of Canada softens tone

The Bank of Canada this month hinted that interest rates may remain low for longer than previously thought. The softer stance is in response to inflation that has been well below the Bank of Canada's two per cent inflation for well over a year. Over the last two years the Bank has had to consistently revise down its forecast for inflation (Chart 3). They attribute persistently low inflation to substantial slack in the Canadian economy, as well as transitory factors such as increased competitiveness in the retail market and the re-introduction of the PST in BC.

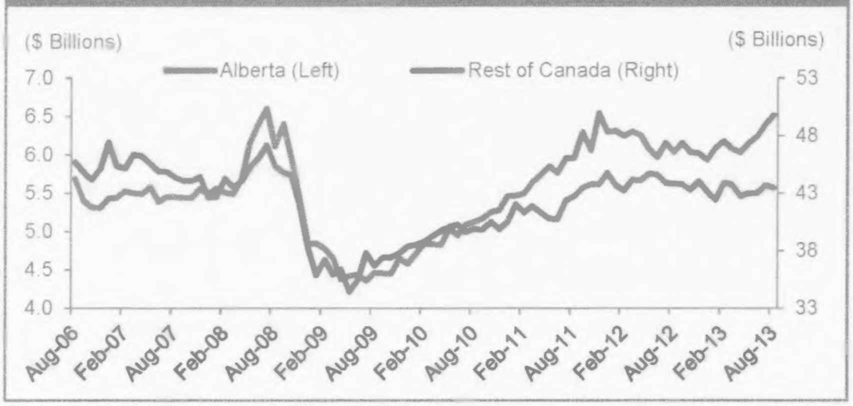
Debt ceiling deal reached

After a month-long standoff, US Congress passed a bill to give the Treasury the authority to borrow beyond the debt ceiling until February 7. The bill also funds the federal government until January 15. This ended the partial government shutdown and allowed some 800,000 furloughed federal employees to return to work. In the week leading up to the agreement, Fitch (a ratings agency), placed US federal government debt on "negative watch", essentially a warning that Fitch might lower the bond rating for US debt. This harkens back to the 2011 debt ceiling battle when another ratings agency, Standard and Poor's, downgraded US debt, precipitating what remains the largest decline in stock prices since the financial crisis of 2008-09.

IMF downgrades outlook again

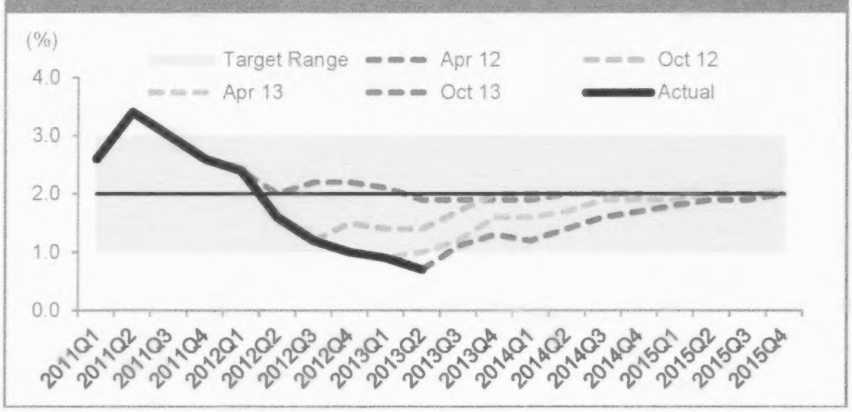
Global growth continues to disappoint. The International Monetary Fund has lowered its 2013 forecast for global economic growth for the sixth consecutive time, by 0.3 percentage points to 2.9% in October. The downgrade reflects slower growth in emerging market economies. For advanced economies, a dimmer growth outlook for North America was offset by a brighter outlook for the European Union and especially the United Kingdom.

Chart 2: Manufacturing Shipments



Source: Statistics Canada

Chart 3: Bank of Canada Inflation Forecasts



Source: Bank of Canada

Alberta's rising contribution to national exports

Alberta has emerged as Canada's second-largest international exporter of goods among the provinces, supplanting Quebec in 2005. The province has seen these exports grow from $57.1 billion in 2003 to $94.9 billion in 2012, an increase of 66.1% (Chart 1). Among the provinces, this is the fourth fastest growth rate, behind Saskatchewan, Newfoundland and Labrador, and New Brunswick and well above the 20.5% increase in national exports. As a result, Alberta has seen its share of Canada's international goods exports increase to nearly one-quarter so far this year, up from around 15% in 2003 (Chart 2). This inFocus investigates why Alberta has seen its share of national exports increase.

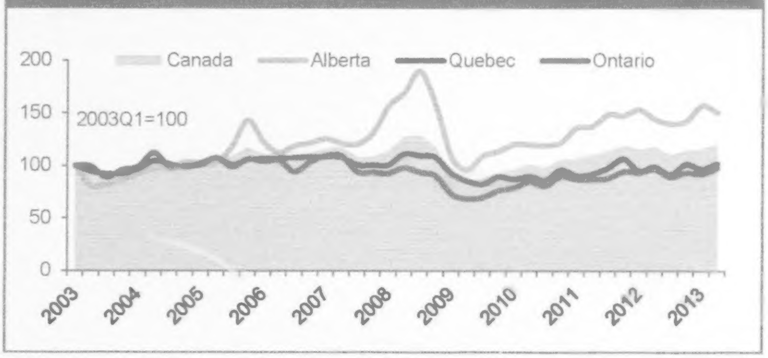
Crude products boost Alberta's export share

Exports of crude oil and bitumen (i.e. crude products) mainly account for Alberta's rising share of Canadian international exports. Crude exports from Alberta have expanded from $15.9 billion to $56.9 billion between 2003 and 2012, bringing their share of national exports from 4.5% to 13.3%. Crude product exports represented roughly 60% of total goods exports from Alberta in 2012.

Alberta is not the only province to see its exports of crude products surge. Though Alberta remains the largest producer, accounting for more than three-quarters of crude exports, the other producing provinces of Saskatchewan and Newfoundland and Labrador have seen slightly larger percentage increases in crude exports. Over the last ten years, the value of Alberta crude exports increased 3.6-fold, compared with a 4.1-fold increase in Saskatchewan and a 4.6-fold increase in Newfoundland & Labrador. These gains mainly reflect higher prices; however, export volumes of crude oil and bitumen from Canada are also up sharply over the last decade (Chart 3), and have been a major driver of Canada's real export growth.

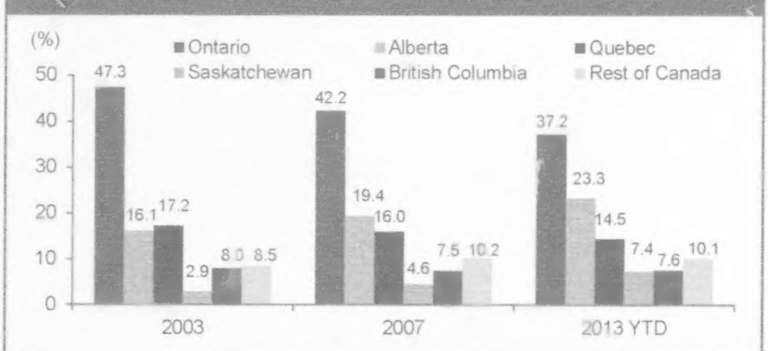
The recession hit crude exports hard, with the value of Alberta's crude exports falling 35% between 2008 and 2009. This was entirely a price effect, as crude export volumes continued to increase. The value of Alberta crude exports has have rebounded sharply since the trough in 2009 and have continued to increase into 2013.

Chart 1: Value of International Goods Exports (Index)



Source: Statistics Canada, quarterly data ending 2013Q2.

Chart 2: Share of Canadian International Goods Exports



Source: Statistics Canada. Note: Year-to-date (YTD) is January through August

Natural gas a drag on exports

While oil shipments are up markedly, Alberta natural gas exports have trended sharply lower over the last ten years. Surging US shale oil production has resulted in a glut of supply in North America, which has lowered prices and discouraged natural gas drilling in Alberta. As a result, natural gas has gone from being 41.3% of Alberta's goods exports in 2003 to less than

Export destinations

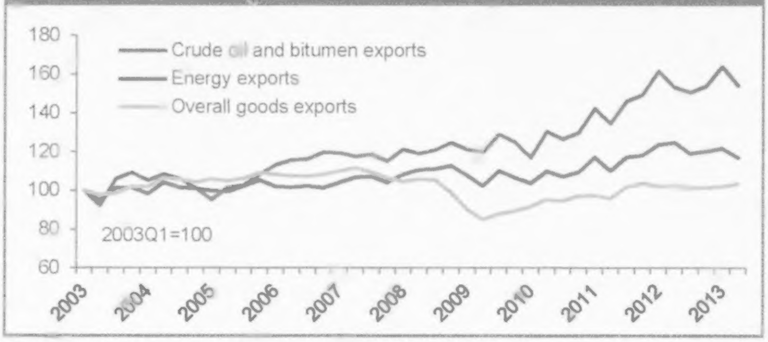
The vast majority of Canadian exports are sent to the United States, at $317.2 billion or 74% of total goods exports in 2012. The United States, however, is not the fastest growing major export destination. Exports to China have increased 376% over the last 10 years, and totaled $190.5 billion in 2012.

Likewise, the US was the destination for most (86%) of Alberta's exports in 2012. China is Alberta's fastest growing major export market, with exports up 285% between 2003 and 2012.

9.1% in 2012. The national pattern is similar, where exports of natural gas represented roughly 8.0% of total exports in 2003, and only 2.6% in 2012.

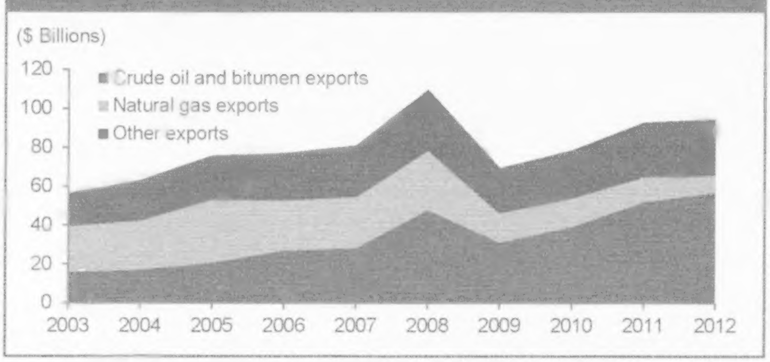
Lower natural gas exports since the recession have driven a wedge between the growth in Canadian crude and overall energy export volumes (Chart 3). The volume of natural gas exports in Canada have declined 18% between 2007 and 2012, weighing heavily on overall energy exports. Over the same period, crude export volumes have jumped 37%.

Chart 3: Volume of Canadian International Goods Exports (Index)



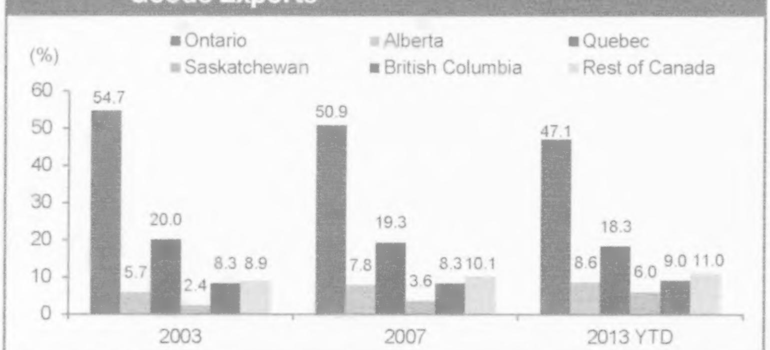
Source: Statistics Canada and Industry Canada, quarterly data ending 2013Q2

Chart 4: Value of Alberta International Goods Exports



Source: Statistics Canada, annual data

Chart 5: Share of Canadian Non-Energy International Goods Exports*



Source: Statistics Canada
* Excludes crude oil, bitumen, natural gas, and refined petroleum.
Year-to-date (YTD) is January through August

Non-energy products also pull up Alberta's share

Alberta's rising share of national exports is not entirely due to crude products. Strong growth has also been noted in non-energy exports over the last ten years. Alberta has seen non-energy exports increase 67.0% since 2003 (Chart 4), compared with 12.9% nationally. Especially large gains have been observed in farm and food products (+332%), and machinery and equipment and parts (+273%). Meanwhile, more sluggish growth has been seen in Canada's other major exporting provinces. In Ontario and Quebec, which account for over half of Canada's exports, non-energy exports have decreased by 3.0% in Ontario and increased by only 1.8% in Quebec over the 10 year period.

These developments have had a large impact on provincial export shares (Chart 5). Alberta's share of non-energy exports has increased from 5.7% in 2003 to 8.6% so far in 2013 . Meanwhile, Ontario's share has slipped 7.7 percentage points over this period while Quebec's has dropped 1.9 percentage points.

Conclusion

Alberta's contribution to national goods exports has risen sharply over the last decade. Alberta is Canada's second-largest exporter of goods after Ontario, accounting for more than 20% of national exports.

Alberta's rising share is mainly due to exports of crude products, which have surged over the last decade on higher prices and volumes. This has more than offset significant drag from declining natural gas exports. Alberta has also increased its share of Canada's non-energy exports, lifted by gains in a number of categories, namely farm and food products, and machinery and equipment and parts.

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